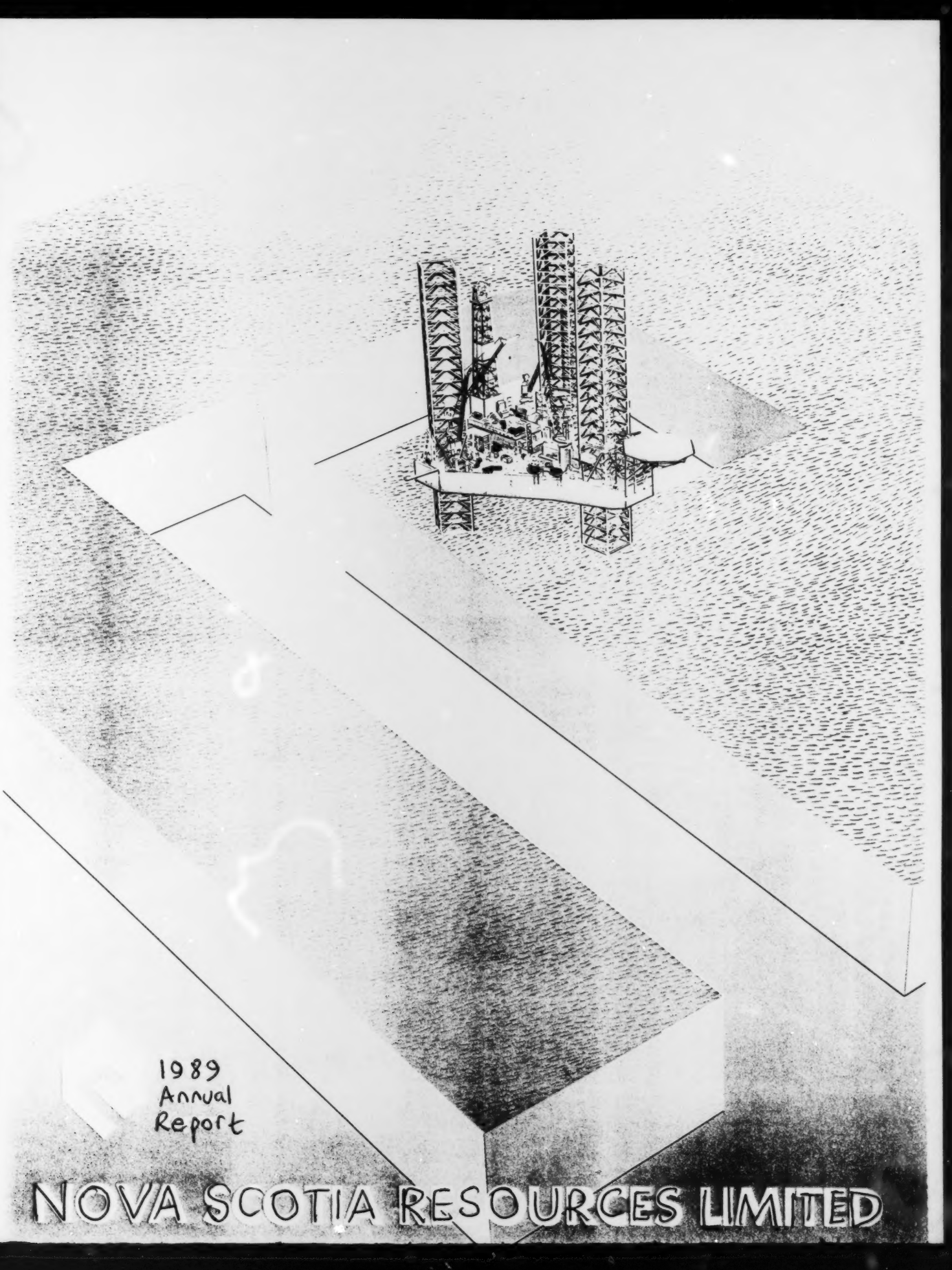




1989
Annual
Report

NOVA SCOTIA RESOURCES LIMITED



Note to Readers

Since 1981 NSRL has invested \$220 million to acquire its Nova Scotia offshore petroleum assets and to stimulate and participate in development of the Nova Scotia offshore. Of this total it has recovered \$92 million in reimbursed costs from the Government of Canada under various incentive programs, reducing the Company's net cost of offshore investment to \$128 million at March 31, 1989.

Net cash flow from the Company's producing assets in western Canada has reduced their original cost from \$28 million to less than \$14 million.

Administrative overhead expense in 1988/89 was \$770,000, 13% below the previous year. Net revenue of \$1.2 million from the Company's producing assets was used to meet overhead and the excess applied to reduction of debt.

Nova Scotia Resources Limited

Corporate Profile

Nova Scotia Resources Limited is a provincial Crown corporation under the responsibility of the Minister of Mines and Energy, established in 1981 to invest in and manage the Province's interests in petroleum, energy and mineral resources development and related industrial projects.

Offshore Assets

As at September 1989, NSRL owned or controlled substantial petroleum rights and working interests in discovered hydrocarbon reserves on the Scotian Shelf estimated to total 165 million barrels of oil equivalent net to NSRL, including:

- interests in 19 Significant Hydrocarbon Discovery Areas declared by the Canada Oil and Gas Lands Administration
- approximately 7% of total natural gas and natural gas liquids reserves
- a 100% working interest in the Cohasset oilfield
- a 38.75% working interest in the Panuke oilfield
- interests of 25%, 50%, and 100% in three 6-year exploration licences awarded in 1989 covering 100,647 hectares



Peter A. Outhit,
President &
Chief Executive
Officer

For Nova Scotia Resources Limited it is an understatement that the past 18 months have been active and ultimately rewarding. Our major thrust over the past 5 years — to find and develop Scotian Shelf oil — has met with increasing success. There

has been steady progress in moving development of the Cohasset and Panuke oilfields from internal study through conceptual planning, assembly of a development group and commercial arrangements with partners.

We are pleased to have secured a major internationally reputed exploration and production company, LASMO plc of England, to participate in and operate the combined field development. LASMO has also agreed to partner NSRL in aggressive exploration to establish further oilfields in the vicinity of Cohasset and Panuke.

With its relatively low capital cost, Cohasset/Panuke development makes economic sense at today's oil prices. The project requires no government grants or subsidization. Project engineering is based on efficient, safe technology proven in even more difficult offshore conditions.

In addition to its own commercial return and the important economic benefits it will generate for Nova Scotia, Cohasset/Panuke lowers the cost/risk threshold for the development of incremental oil discoveries. This is a project for the real world of the 1990's, and its time has come.

Offshore Exploration

Scotian Shelf exploration has historically followed global cycles of petroleum investment, with considerable added propulsion from 1981-1985 due to the National Energy Program. This intensive exploration period was foreclosed by the combined effect of the 1986 world oil price plunge and the

termination in 1987 of the last PIP-grandfathered activity. Following one significant gas discovery well in 1988, much of the remaining unexplored land was surrendered to the Crown.

In 1989 we are witnessing the beginning of a more realistic exploration cycle. After inviting competitive tenders, the Canada/Nova Scotia Offshore Oil and Gas Board awarded to separate bid groups three 6-year exploration licences covering land blocks largely comprising areas recently surrendered. These licences require nearly \$20 million of exploration expenditures by September 1992, and a well must be drilled on each parcel to retain it beyond that date. Within the new land blocks are excellent prospects for further oil and natural gas discoveries on established geological trends. Seismic work under the new licences is expected to commence almost immediately.

A Global Snapshot

There is a growing realization by both producing countries and industry of the benefits of a stabilized world oil market. As factors that influence global pricing are identified and monitored, industry forecasting of market fundamentals has become increasingly consistent.

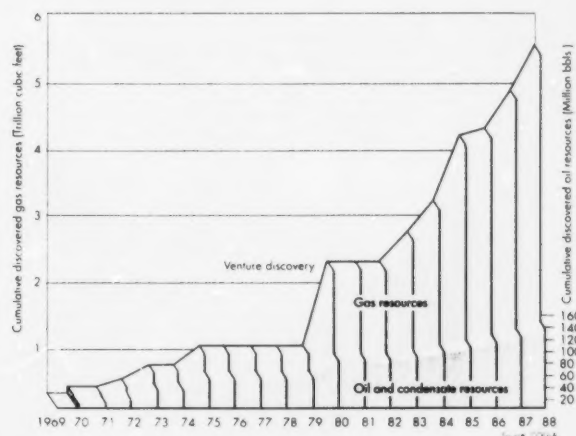


Figure 1 Discovered Gas and Oil Resources Offshore Nova Scotia, 1969 - June 1988.

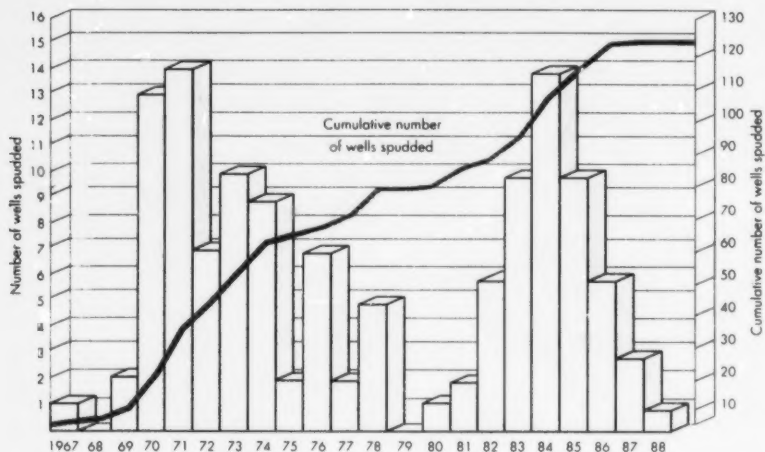


Figure 2 Drilling Activity Offshore Nova Scotia, 1967-1988

According to most energy analysts

- world oil output and consumption are in relative balance;
- world economic growth will place increased pressure on energy demand;
- oil prices are likely to remain within the current price range (U.S. \$17-\$20 per barrel) in the short term, with modest increases in the 1990's.

In North America, natural gas has entered a period of sustained market growth. According to the American Gas Association the domestic U.S. gas bubble, which has depressed prices since 1982, has virtually come to an end. This and recent market changes have positive implications for eventual gas production from the Nova Scotia offshore.

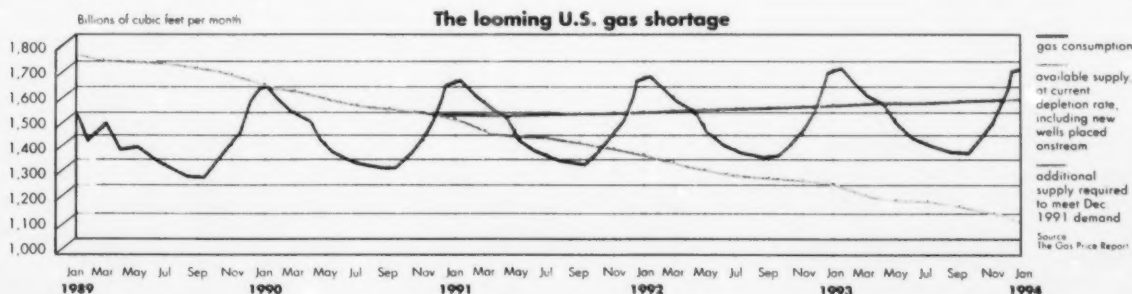
Central to international hydrocarbon development is greatly heightened public concern for the environment. Future proposals to explore for, produce, transport or consume fossil fuels and their derivative products will be closely examined from an environmental viewpoint. Existing standards will be strengthened and environmental monitoring practices improved.

Administration

The Company continues its strategy to acquire cash flow from producing assets, utilizing its large offshore expenditure tax pools. In February 1989 we added to these assets. This ensures that previously acquired net revenues (nearly \$1.2 million for the year to March 31, 1989) will be substantially augmented. It is good business, and essential financial policy, that we strengthen the Company's working capital position as we enter a period of intensive offshore activity.

In closing I would note that despite an increased level of work — particularly with regard to Cohasset/Panuke development — NSRL's administrative overhead was 13% below the previous year. Among the cost-saving measures was the relocation of our Halifax offices in November 1988 to purpose-designed premises at a substantially improved rental.

Signature



Recent Progress

Over the past 18 months, accelerated efforts by NSRL to initiate combined development of the Cohasset and Panuke oilfields achieved marked progress.

In spring 1988, immediately following the Cohasset Facilities Task Force work carried out jointly with Petro-Canada, NSRL completed an economic evaluation of Cohasset/Panuke development under alternative production approaches. Encouraged by the positive results, the Company contacted several offshore operators to obtain independent project evaluations. NSRL also commissioned a market study which confirmed the potentially strong marketability of Cohasset and Panuke production. Most importantly, the Company commenced efforts to acquire the interests of the other working interest owners in Cohasset on a basis that would permit timely economic development of the field. This goal was reached in June 1989 when NSRL secured 100% ownership control of the Cohasset field.

In fall 1988, NSRL commenced discussions with Iona Resources Ltd., a private Nova Scotia company holding options to acquire a majority interest in the Panuke oilfield, to examine Iona-NSRL joint participation in a combined Cohasset/Panuke development.

In early 1989, NSRL's project engineering group completed a preliminary combined field development plan which focussed and expedited its discussions with prospective participants. One of the first companies contacted was LASMO plc of England, a major independent production company with offshore operating experience. LASMO's response was positive. It joined NSRL as 50% partner/Operator in a successful \$13.3 million bid for oil exploration lands near Cohasset/Panuke (awarded July 1989). LASMO then entered discussions with NSRL, as well as with Iona Resources, to establish the basis for LASMO participation as partner/Operator in the development project.

Project Milestones: Cohasset

1973	Mobil Tetco Cohasset D-42 well discovers 48 m (157 ft.) net oil pay in 14 reservoir sandstones. Production tests individual rates 39–167 m ³ (244–1050 bbls.) per day light oil from 3 zones.
1978	Mobil Tetco PEX Cohasset P-42 delineation well 1.8 km NE of D-42. Reservoir sandstones structurally lower and water-bearing. No tests.
1983	Studies by NSRL, owner of 10% interest in Cohasset area, confirm Cohasset structure potential. NSRL begins effort to interest partners in drilling new well.
1984	NSRL initiates 92 km 2-D seismic program over Cohasset, operated by Mobil.
1985	NSRL conducts extensive high resolution 1,800 km (1,125 mi.) seismic program over potential oil bearing prospects within target sands overlying the Abenaki carbonate platform edge west of Sable Island. Interpretation confirms a range of potential oil prospects and optimum location for a new Cohasset well.
December 1985– March 1986	PCI et al Cohasset A-52 delineation well 1.5 km SW of D-42 (NSRL 25% participant) penetrates 45 m (148 ft.) net oil pay in 9 reservoir sandstones. Production tests individual rates from 6 zones of 210–1,240 m ³ (1,320–7,800 bbls.) oil per day, and a cumulative rate of almost 29,000 bbls. (4,611 m ³)/day from the combined 6 zones.
July 1986	Petro-Canada and NSRL conduct 3-D seismic program over Cohasset reservoir.
August 1986– May 1987	Petro-Canada and NSRL study reservoir to determine oil in place, production alternatives, facility design criteria, and establish reservoir computer model.
1987–1988	Petro-Canada and NSRL set up special task force to select preferred facilities design and conceptual base case for development.
1988	Petro-Canada defers development decision on Cohasset. NSRL commences discussions with non-developing Cohasset interest owners to acquire their interests. NSRL elicits interest of Iona Resources in merits of combined Cohasset/Panuke development. NSRL also obtains development evaluations by offshore companies.

1988–89

NSRL interests Iona Resources in examining combined Cohasset/Panuke development.

March–
July 1989

NSRL engineering group prepares preliminary base case for combined field development and presents to interested companies. NSRL contacts LASMO, receiving positive response. NSRL

Project Milestones: Panuke

1985	NSRL conducts extensive high resolution 1,800 km (1,125 mi.) seismic program over potential oil bearing prospects within target sands overlying the Abenaki carbonate platform edge west of Sable Island.
December 1985	NSRL exercises option to earn 10% interest from Petro-Canada in "SW Cohasset" structure by drilling well.
Summer 1986	Shell/PCI et al Panuke B-90 well initiated by NSRL discovers 6 m (20 ft.) net oil pay in correlated sandstones. Production tests at rate 968 m ³ (6,100 bbls.) oil per day.
October 1986	Through Sulbath land purchase NSRL increases Panuke interest to 12.5%. New land block adjoining Panuke discovery is awarded to Petro-Canada, NSRL (40%) and Canterra.
Summer 1987	Petro-Canada et al Panuke F-99 delineation well (NSRL 65% participant) 3 km SE of B-90 penetrates 5 m (17 ft.) net oil pay in correlated sandstones. Extended production test to tanker flows oil at rate 635 m ³ (4,000 bbls.) per day. Total oil lifted over 6 days is 3,714 m ³ (23,400 bbls.).
1987-89	Technical/economic studies by NSRL include Panuke as integral part of development with Cohasset.

successfully concludes negotiations to acquire 100% ownership control of Cohasset. LASMO enters discussions with NSRL, as well as with Iona Resources, to establish the basis for LASMO participation as partner/Operator in the development project.

Location

The Cohasset and Panuke oilfields are located 250 km (155 mi.) southeast of Halifax and about 50 km (31 mi.) southwest of Sable Island. Panuke is 8 km (5 mi.) southwest of Cohasset. Water depth in the area is 36–42 m (120–140 ft.), well within the capability of proven shallow water drilling and production technology. The region is ice-free; year round exploration drilling has taken place on the Scotian Shelf on several occasions since 1969.

Oil Reserves

The fields contain light gravity sulphur-free oil (average 52° API), which can also be characterized as condensate. The producing zones are situated in sandstone reservoirs located 1,676–2,438 m (5,500 ft.–8,000 ft.) below the seafloor. Producing zones have good to excellent porosities and permeabilities and are normally pressured. Each reservoir structure has been analyzed and modelled; the Cohasset appraisal includes 3-D seismic interpretation. The combined fields are estimated to contain in excess of 100 million barrels of oil in place. In anticipation of being appointed project Operator, LASMO is carrying out studies aimed at determining the percentage of oil that may be recovered according to several production configurations.



Production Concept

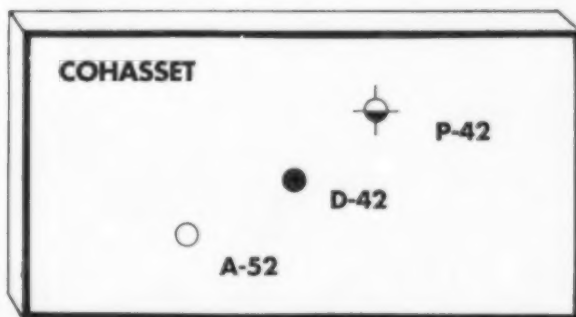
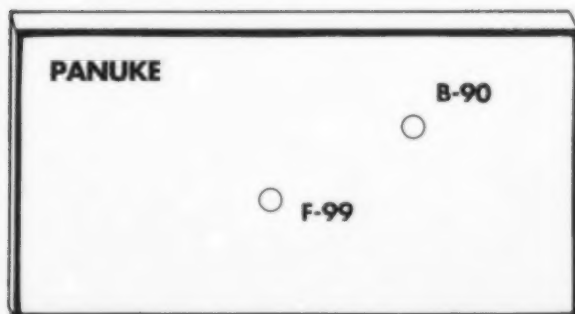
The conceptual plan and engineering design for development is based on seasonal production (April through October) from both fields over a 5 to 7 year period. The season may eventually be lengthened as a result of operating experience. This development approach is designed to maximize operating efficiency within known environmental conditions. The reduced level of pre-production capital lessens investment risk yet allows for subsequent enlargement or extension of the project through improved operating performance and possibly incremental production from other fields. Production facilities could be ultimately redeployed elsewhere with little modification.

Installed platform facilities will be capable of safe year round operation. This will permit well workover and facility maintenance work to be carried out during periods of non-production.

Studies are currently under way by LASMO to determine a finite combined field development plan which will address the number of production and injection wells required, the type and configuration of production facilities, and requirements for storing production and transporting to market.

Assuming successful conclusion of business arrangements among the developing partners, the project approval process will be initiated by the filing of a preliminary application to develop with the new Canada-Nova Scotia Offshore Oil and Gas Board. The estimated period from filing of the application to first oil production, taking into consideration all requisite reviews and approvals, construction and installation of facilities, is 2 1/2 years.

LASMO has already established a Nova Scotia company, headquartered in Halifax, which would be responsible for Cohasset/Panuke project management, as well as for operation of the LASMO-NSRL Scotian Shelf exploration program which began in fall 1989.



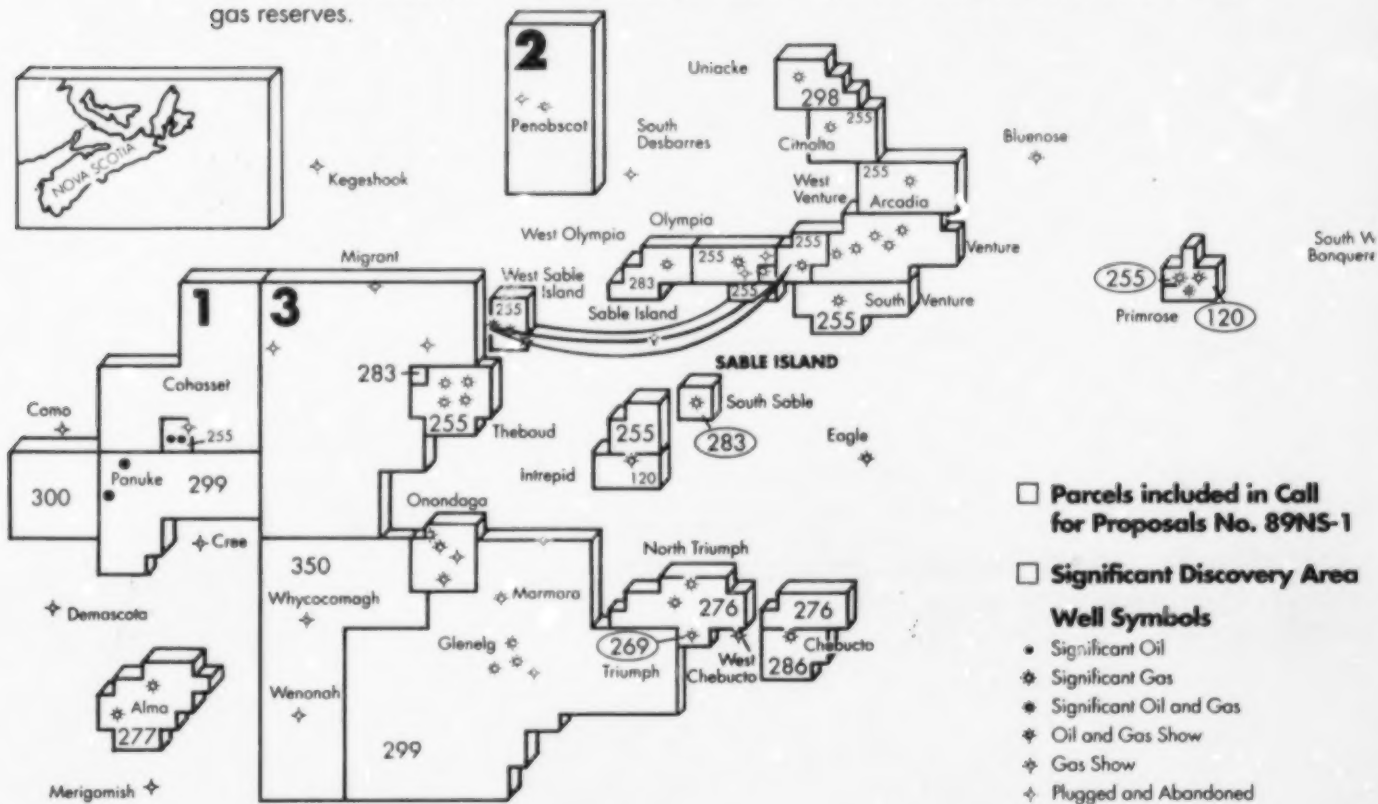
In spring 1988 NSRL participated in the drilling by Mobil of the South Sable B-44 exploration well at a location 5 km south of Sable Island and 33 km southwest of the Venture gas field. Its primary objective was to drill, evaluate and test prospective reservoirs in the Missisauga sands. The well was spudded by the Rowan Gorilla I jack-up rig March 27, 1988 and reached its final depth of 5207 meters on June 23.

☐

In summer 1988, the Company also participated in the final well abandonment and clean-up work by Mobil on the Cohasset D-42, Citnalta J-59, Arcadia J-16 and Olympia A-12 Scotia Shelf wellsites, as these wells are not to be utilized for future production.

The Company joined in relinquishments in fall 198 and in spring 1989, by Mobil, Shell, and Canterra respectively, of Exploration Agreements #283, #275, #276, #277, and #350, excepting lands within Significant Discovery Areas or applications for Significant Discovery status.

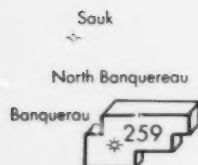
A substantial portion of the relinquished lands were included within parcels covered by new exploration licence awards of the Canada/Nova Scotia Offshore Board announced in July 1989.



Award of Exploration Licences

In February 1989, the Canada-Nova Scotia Offshore Oil and Gas Board issued Call for Proposals No. 89NS-1, requesting competitive bids by June 30, 1989 for the award of 6 year exploration licences on 3 prospective land parcels on the Scotian Shelf (see map). Bids are evaluated on the total amount of money committed to be expended in the first 3 years of the exploration licence, with a minimum \$1 million per parcel. A well must be drilled during the first 3 years to retain the awarded parcel for the second 3 year period.

NSRL and LASMO, in 50/50 partnership, were successful in acquiring Parcel 1, containing 26,392 hectares adjacent to the Panuke and Cohasset oil discoveries, for a work expenditure bid of \$13.3 million. LASMO and NSRL commenced offshore seismic work, under LASMO's operatorship, in fall 1989.



NSRL successfully bid to acquire a licence on Parcel 2, an 18,500 hectare block which covers part of the Abenaki reef front northwest of Sable Island and includes the 1976 Penobscot oil and gas discovery. The Company plans to conduct detailed seismic to evaluate potential drillable structures in the block.

NSRL also participated with Mobil, Shell, and Petro-Canada (25% each) in a successful bid to acquire Parcel 3, a 55,755 hectare block near the Thebaud significant gas discovery area southwest of Sable Island. Mobil will operate the exploration program in this block.

1986 Accord Legislation

In July 1988, Parliament passed legislation to implement the Canada-Nova Scotia Offshore Petroleum Resources Accord which had been signed in August 1986. Nova Scotia counterpart legislation had been passed previously. Both

governments are expected to proclaim the new legislation in 1989, when a new independent offshore board will assume legal responsibility to administer the Nova Scotia offshore. Meanwhile the existing Canada-Nova Scotia Offshore Oil and Gas Board, established in 1982, continues to regulate activity but its decisions reflect the joint management principles of the 1986 Accord. Proclamation of the new legislation will enable NSRL to draw upon the \$25 million offshore drilling fund designated to it under the 1986 Accord.

Georges Bank Moratorium

In April 1988 the governments of Canada and Nova Scotia agreed to place a moratorium on exploration activity on Georges Bank until the year 2000. An independent panel will conduct a public review of the environmental and socio-economic impacts of oil and gas exploration and drilling on Georges Bank and report its findings to the Ministers of Energy for Canada and Nova Scotia on or before July 1, 1999. The moratorium and public review requirements are to be incorporated into the Canada-Nova Scotia Accord implementing legislation.

**Nova Scotia Offshore Declared Significant
Discovery Areas In Which NSRL Has An Interest**

Description	Discovery Year	Area (Hectares)
1. Cohasset	1973	1,488
2. Panuke	1986	3,370
3. Thebaud	1972	6,696
4. Venture	1979	10,388
5. South Venture	1983	6,307
6. West Venture C-62	1985	2,597
7. West Venture N-91	1985	1,484
8. North Triumph	1986	7,833
9. Olympia	1983	3,339
10. West Olympia	1985	3,710
11. Arcadia	1983	6,666
12. Citnalia	1974	4,440
13. South Sable	1988	1,488
14. Uniacke	1984	4,440
15. Glenelg	1983	5,968
16. Alma	1984	8,593
17. Primrose	1972	2,597
18. West Sable	1971	2,226
19. Intrepid	1974	5,952

Gold Exploration Program

The SCOMINEX joint venture, operated by Inco Gold and in which NSRL holds a 25.8% interest, continued to focus field exploration activities in the Cape Breton highlands in 1988 and 1989.

To date, widely scattered gold mineralization has been discovered within the George River Series Formation of Precambrian rock and associated intrusives, with up to 97 grams of gold/ton found associated with quartz veins. In addition, a large epidote rich zone (pyrophyllitic alteration) has been located, carrying relatively low gold values (up to 1.8 grams/ton); this zone is covered with till and overburden and requires further excavation and drilling to assess its potential.

The 1988 work has led to the discovery of 18 new gold showings and one molybdenum showing (1.08% MO.) bringing the Cape Breton highlands total to 34 gold showings of greater than one gram of gold/ton. 1500 line kilometres of prospecting was carried out with rock samples, soil samples, heavy mineral and till sampling, and 4.5 km of trenching.

Because of the positive results from 1988, SCOMINEX partners have determined to continue exploration through 1989. The planned work includes extensive trenching to expose bedrock and mineralization in areas with anomalous gold float. Contingent on success in this activity, a drilling program will be carried out in late 1989. The drilling results will be critical to SCOMINEX's decision to undertake Cape Breton's first gold development.

Cash Flow Acquisitions Using Tax Pools

Utilizing the accumulated offshore expenditure tax pools in its taxable subsidiary Nova Scotia Resources (Ventures) Limited, the Company has concluded three transactions since 1985 to acquire production revenue streams from oil and gas properties in Western Canada. In each case the availability of tax pools to shelter from tax the acquired revenues enabled NSRL to achieve an exceptional rate of return. After repayment of principal and interest the acquired producing assets will generate substantial net revenues over the life of the applicable oil and gas reserves, currently estimated at 20 years.

The initial transaction, a reversionary working interest in production, earned net revenues of \$462,630 during fiscal 1989. Asset cash flow is expected to retire the cost of this acquisition during 1989.

Cash flow from the second acquisition, completed in fall 1987, was affected by declining oil prices in 1988. However, this price variance was partially offset by larger than forecast production volumes, and additions to proven reserves which will generate additional cash flow in the future. As at the fiscal year end, the trend of oil prices was moving upward. After all direct expenses and an allocation of financing costs, the Company earned net revenue from these assets of \$582,308 for the year.

In February 1989, the Company acquired at a net cost of \$7.5 million a production revenue stream from low risk mature oil properties in Alberta.

Asset net cash flows are being directed to reduce the cost of the Company's offshore Nova Scotia program. Further details appear in the Notes to the Consolidated Financial Statements.



Figure 4 Canadian Light Crude Oil Price, Edmonton, Alberta

**AUDITORS'
REPORT**

Management's Responsibility For Financial Reporting

The Consolidated Financial Statements and other financial information in the Annual Report are the responsibility of Management and have been approved by the Board of Directors.

An independent auditor, Doane Raymond, is engaged to express a professional opinion on the financial statements prepared by Management. The examination is conducted in accordance with generally accepted accounting principles and auditing standards, and includes tests and procedures which allow the auditor to report on the fairness of the financial statements.

An Audit Committee consisting of non-Management directors is appointed by the Board of Directors to review the Consolidated Financial Statements in detail with Management and the auditor. The Audit Committee reports to the Board prior to such statements being approved.

To the Shareholders of
Nova Scotia Resources Limited

We have examined the consolidated balance sheet of Nova Scotia Resources Limited as at March 31, 1989, and the consolidated statements of exploration expenditures and changes in financial position for the year then ended, and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the Company, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the financial position of the Company as at March 31, 1989 and the continuity of exploration expenditures and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Halifax, Nova Scotia
June 26, 1989

Doane Raymond
Chartered Accountants

**CONSOLIDATED
BALANCE SHEET**

March 31, 1989

	ASSETS	1989	1988
Current			
Cash and short term deposits		\$ 2,663,483	\$ 7,000,297
Receivables		10,060,732	10,509,192
		12,724,215	17,509,489
Exploration expenditures (Notes 2 & 7)		128,118,676	114,684,710
Oil and gas producing properties (Note 3)		19,016,316	16,319,086
Mineral properties		1,083,023	867,044
Equipment and leasehold improvements		45,746	66,119
Other assets		361,591	345,676
		<u>\$161,349,567</u>	<u>\$149,792,124</u>

LIABILITIES

Current			
Commercial paper (Note 4)		\$151,892,752	\$141,797,707
Bank indebtedness (Note 4)		6,918,919	
Payables and accruals		776,477	2,887,422
Current portion of long term debt (Note 5)		1,595,584	3,000,000
Deferred revenue		165,832	176,079
		161,349,564	147,861,208
Long term debt			1,930,913
		<u>161,349,564</u>	<u>149,792,121</u>

SHAREHOLDERS' EQUITY

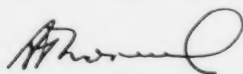
Capital stock			
Authorized			
40,000 commons shares without par value			
Issued and outstanding			
3 common shares		3	3
		<u>\$161,349,567</u>	<u>\$149,792,124</u>

Contingency (Note 7)

ON BEHALF OF THE BOARD



Director



Director

**CONSOLIDATED
STATEMENT OF
EXPLORATION
EXPENDITURES**

*For the year ended
March 31, 1989*

	1989	1988
Balance, beginning of year	\$114,684,710	\$110,417,384
Drilling and exploration expenditures	3,933,852	15,116,707
General and administrative costs	770,984	884,357
Financing costs	11,442,582	1,159,417
	130,832,128	127,577,865
Less: Exploration incentives	(1,527,744)	(10,737,133)
Proceeds from flow through shares		(1,150,000)
	(1,527,744)	(11,887,133)
Net revenues from oil and gas producing properties (Note 3)	(1,185,708)	(1,006,022)
Balance, end of year	\$128,118,676	\$114,684,710

**CONSOLIDATED
STATEMENT OF
CHANGES IN
FINANCIAL
POSITION**

*For the year ended
March 31, 1989*

	1989	1988
Cash provided from (used for)		
Investing		
Purchase of		
Oil and gas properties	\$ (6,519,425)	\$(10,938,692)
Equipment and leasehold improvements	(14,437)	(16,143)
Mineral property exploration costs	(215,979)	(198,486)
Proceeds from flow through shares		1,150,000
Cost incurred on offshore Nova Scotia		
oil and gas properties	(14,961,710)	(16,154,459)
Proceeds from exploration incentives	1,527,744	10,737,133
Depletion and depreciation	3,857,005	2,962,344
Changes in other non-cash working		
capital accounts	(1,688,647)	(5,332,297)
	(18,015,449)	(17,790,600)
Financing		
Proceeds from commercial paper	10,095,045	16,180,906
Reduction of long term debt	(3,335,329)	(2,986,190)
	6,759,716	13,194,716
Net cash used	(11,255,733)	(4,595,884)
Cash and short term deposits, beginning of year	7,000,297	11,596,181
Bank indebtedness, net of cash and short term deposits, end of year	<u>\$ (4,255,436)</u>	<u>\$ 7,000,297</u>

**NOTES TO
CONSOLIDATED
FINANCIAL
STATEMENTS**

March 31, 1989

1. Accounting policies

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries.

A significant part of the Company's activities is conducted jointly with others and accordingly, these financial statements reflect only the Company's proportionate interest in these activities.

(b) Exploration expenditures

The principal activities of the Company are in the exploration and pre-production stage and accordingly the Company follows the full cost method of accounting as prescribed in the Guideline on Full Cost Accounting in the Oil and Gas Industry issued by the Canadian Institute of Chartered Accountants. All costs incurred for the acquisition, exploration and development of oil and gas reserves are capitalized within one cost center. Costs capitalized include overhead related to exploration and development activities as well as interest and foreign currency gains and losses related to funds borrowed for these activities. The amount of exploration incentives earned is accounted for as a reduction of exploration expenditures.

The Company receives revenues and incurs expenses from producing oil and gas properties in Western Canada. However, because the principal activities of the Company are centered in the Nova Scotia offshore region which is still in the exploration and pre-production stage, the net revenues from producing properties are applied to decrease the accumulated offshore exploration expenditures.

(c) Oil and gas producing properties

The producing oil and gas properties in Western Canada are valued at cost. Depletion for these properties is calculated based upon the unit-of-production method.

(d) Mineral properties

The Company follows the full cost method of accounting whereby all costs of acquisition, exploration for and development of mineral reserves are capitalized and accumulated within one cost centre. Costs capitalized include overhead related to exploration and development activities as well as interest and foreign currency gains and losses related to funds borrowed for these activities.

(e) Foreign currency translation

Assets and liabilities denominated in U.S. dollars have been translated to Canadian dollars using the exchange rate on March 31, 1989. Transactions during the year are recorded using the exchange rate in effect at the date of the transaction.

2. Exploration expenditures

The Company's exploration expenditures relate to the offshore Nova Scotia region and include \$46.1 million (1988—\$34.7 million) of accumulated net financing costs. The exploration expenditures have been reduced by \$92.2 million of Petroleum Incentives Program grants and other exploration incentives earned.

3. Oil and gas producing properties

	1989	1988
Balance, beginning of year	\$16,319,086	\$ 8,307,714
Additions	6,519,425	10,938,692
Depletion	(3,822,195)	(2,927,320)
Balance, end of year	<u>\$19,016,316</u>	<u>\$16,319,086</u>

After all direct expenses and an allocation of financing costs, the Company's earnings from these properties were \$1,185,708 (1988—\$1,006,022). The earnings have been applied to reduce the accumulated cost of exploration expenditures. The additions during the year are comprised principally of the purchase in February 1989 of new oil producing properties in Western Canada. Earnings from the new properties are included for the two months ended March 31, 1989.

Cash flow from the properties of \$4,554,382 (1988—\$4,287,260) is dedicated to repayment of related indebtedness.

4. Commercial paper and bank indebtedness

In 1986 the Company established a Euro Commercial Paper Programme under which it issues short-term notes, guaranteed by the Province of Nova Scotia, to an aggregate principal amount not exceeding U.S. \$150 million. The notes are denominated in U.S. dollars and the principal balance outstanding at March 31, 1989 was U.S. \$129 million. Since the short-term notes are revolving on a 30 to 180 day basis they have been classified as a current obligation.

To support the Euro-Commercial Paper Programme, the Company has arranged a revolving credit facility with swingline advance option underwritten by 12 international banks which provides committed bank funding to U.S. \$60 million. This credit facility has a 5 year term to October 9, 1991. The principal balance outstanding at March 31, 1989 was U.S. \$5 million. Repayment of advances is guaranteed by the Province of Nova Scotia.

5. Long term debt

In 1985, the Company borrowed \$11.1 million to acquire oil and gas producing properties in Western Canada. The loan is being repaid from net revenues from the properties and the lender has no other recourse to the Company. The principal balance of the loan at March 31, 1989, was \$1,595,584 (1988—\$4,930,913), all of which is current.

6. Losses carried forward

The Company, through its subsidiary, Nova Scotia Resources (Ventures) Limited, has non-capital losses carried forward for income tax purposes totalling \$26.1 million which are due to expire in varying amounts over a period from March 31, 1990 to March 31, 1996 unless applied against taxable income of the Company. The tax benefit related to these losses has not been recognized in these financial statements.

7. Contingency

The recovery of offshore exploration expenditures aggregating \$128 million at March 31, 1989 is contingent upon the achievement of commercial production from the Nova Scotia offshore. The Company holds interests in substantial established offshore gas and oil reserves the commercial production from which, in management's opinion, would be sufficient to retire the Company's aggregate exploration and development expenditure indebtedness. Under current market conditions the date of commencement of offshore commercial production is uncertain.

**Board of
Directors**

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Barrister & Solicitor

J. Ewart Blanchard
Halifax, Nova Scotia
Consultant

Ronald B. Coleman
Calgary, Alberta
Consultant¹

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Montreal, Quebec
Chairman, President & Chief Executive Officer
Imasco Limited^{1,2}

Thomas E.G. Lynch (Chairman)
Halifax, Nova Scotia
Businessman²

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Principal Assistant to the Premier
Province of Nova Scotia

Allan G. Manuel, C.A.
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Deputy Minister, Finance
Province of Nova Scotia^{1,2}

Peter A. Outhit
Mahone Bay, Nova Scotia
President & Chief Executive Officer
Nova Scotia Resources Limited

John E. Shaffner
Port Williams, Nova Scotia
Retired Businessman

John L. Stoik
Toronto, Ontario
Consultant
(formerly President, Gulf Canada Limited)

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McInnes, Cooper & Robertson
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Treasurer

John D. French
Director Marketing and Business Development

¹Member, Audit Committee

²Member, Compensation Committee